



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Served: April 3, 1998

Issued by the Department of Transportation
on the 30th day of March, 1998

Ninety-day notices of intent of to terminate service at

**CRESCENT CITY, CALIFORNIA
MERCED, CALIFORNIA
CORTEZ, COLORADO
DODGE CITY, KANSAS
GARDEN CITY, KANSAS
GREAT BEND, KANSAS
HAYS, KANSAS
LIBERAL, KANSAS/GUYMON, OKLAHOMA**

filed by Mesa Air Group under 49 U.S.C. 41734
and 14 CFR 323.3(a)(5)

**Docket OST-98-3548
OST-98-3521
OST-98-3508
OST-98-3502
OST-98-3503
OST-98-3496
OST-98-3497
OST-98-3498**

**ORDER APPROVING TRANSFER OF
ESSENTIAL AIR SERVICE RESPONSIBILITIES
AND PROHIBITING SUSPENSION OF SERVICE**

Background

On February 17, 18 and 23, 1998, Mesa Air Group, d/b/a United Express, filed 90-day notices of intent to suspend its services at the eight communities listed above as of May 18, 19 or 25, 1998. Mesa's services at all the communities are subsidized under the Department's essential air service program.¹ Specifically, the Department selected Mesa to operate 18 Crescent City-Sacramento (via Eureka/Arcata) round trips a week with 19-seat Jetstream 31 aircraft at an annual subsidy of \$189,043 through December 31, 1999;² 24 Merced-San Francisco round trips a week with 19-seat Jetstream 31 aircraft at an annual subsidy of \$750,890 through April 30, 1999;³ 24 Cortez-Denver round trips a week with 19-seat Beech 1900 aircraft at an annual subsidy of \$387,001 through September 30, 1998;⁴ and 12 Hays-Denver, 12 Great Bend-Dodge City-Denver and 18 Liberal/Guymon-Garden City-Denver round trips a week with 19-seat Beech 1900 aircraft at annual subsidies

¹ See Appendix A for maps. Mesa filed its notices pursuant to 49 U.S.C. 41734, which requires a carrier to file notice when the remaining service at a community would be below the level of basic essential air service established under 49 U.S.C. 41733.

² See Order 97-6-29, June 25, 1997.

³ See Order 97-6-22, June 20, 1997. Mesa's services at both Crescent City and Merced are operated by its subsidiary, WestAir Commuter Airlines, Inc.

⁴ See Order 97-11-9, November 6, 1997.

totaling \$2,520,052 annually through September 30, 1999.⁵ Mesa's suspension of services would leave the communities without their full, guaranteed levels of scheduled air service.⁶

At roughly the same time that Mesa filed its notices, however, United Air Lines and two of its other code-share partners -- SkyWest Airlines, Inc., and Great Lakes Aviation, Ltd. -- began coordinating efforts to maintain service and ensure a smooth transition at all of the communities under consideration here. The two commuter carriers propose to provide subsidized service as United Express, and would offer service comparable to what Mesa has been providing. SkyWest proposes 18 Crescent City-Sacramento and 18 Merced-San Francisco round trips a week with 30-seat Embraer Brasilia aircraft. At the other six communities, Great Lakes proposes the same service as Mesa currently operates. Both carriers propose to begin service between April 23 and June 1, 1998. Moreover, as a result of discussions with Department staff, the two carriers have agreed to provide their services at the annual subsidy rates previously established for Mesa for the remainder of the current rate terms.⁷

Decision

After fully considering this matter, we will approve the transfer of essential air service responsibilities and the accompanying subsidy rates for the communities from Mesa to SkyWest and Great Lakes. Both of the incoming carriers have proven themselves to be reliable and fully capable of providing the essential air services at issue. We will also require Mesa to maintain service at the communities until replacement service begins.

In normal circumstances, we would request replacement proposals from interested carriers after a carrier files notice of its intent to suspend essential air service. In this case, however, Mesa filed notice because it will shortly lose its code-share alliance with United, which will severely diminish the value of the communities' services. The communities are therefore confronted with a critical situation, and our standard procedure of requiring Mesa to maintain service without the code-share arrangement while we process a competitive selection case would leave the communities with considerably less attractive service for a protracted period, undoubtedly erode traffic, and ultimately result in higher subsidy burdens for the affected services in the long run.

It is therefore paramount that we take expeditious action. We have contacted other carriers to ascertain whether they might be interested in providing replacement service, but have received no positive replies. In contrast, United and its code-share partners have presented a plan that will ensure the stability of the communities' services and provide a quality of service at least equivalent, if not superior, to Mesa's current services, at subsidy rates that we have previously found reasonable. It is therefore clear that our decision to approve the transfer of Mesa's essential air service responsibilities and subsidy rates to SkyWest and Great Lakes is in the best interests of all concerned. At the end of the current rate periods, we will return to our normal practice of seeking competitive proposals from other interested carriers.

As noted above, SkyWest will operate 30-seat Brasilia aircraft at Crescent City and Merced, rather than the 19-seat Jetstreams that Mesa has been using. For this reason, we are authorizing SkyWest to operate three round trips a day at Merced rather than four, as Mesa has been operating. The Brasilias are larger, faster and more comfortable than Jetstreams, and three round trips will provide a total of 90 seats in each direction as opposed to Mesa's 76 seats. On balance, these improvements more than compensate for the reduction in frequency from four round trips a day to three. In addition, SkyWest has informed us that it might be able to operate only two round trips a day at Crescent City initially, until it acquires additional aircraft. We will allow SkyWest to replace Mesa

⁵ See Order 97-9-13, September 11, 1997. The annual subsidy rates for the western Kansas routes are \$1,025,756 for Hays, \$1,112,143 for Great Bend and Dodge City, and \$382,153 for Liberal/Guymon and Garden City.

⁶ Mesa is the only carrier providing scheduled service at Crescent City, Merced, Cortez and Liberal/Guymon. Dodge City, Garden City, Hays and Great Bend also receive subsidized service to Kansas City by Air Midwest, Inc., d/b/a USAir Express, another Mesa subsidiary. Those services are not covered by Mesa's notices, but are not sufficient to provide the guaranteed levels of essential air service.

⁷ SkyWest's proposal is outlined in Appendix B, and Great Lakes' proposal is shown in Appendix C.

with the lower initial level of service, which will nonetheless provide the community with 60 seats a day in each direction, compared to the 57 seats currently offered by Mesa.⁸

As a practical matter, we fully expect that Mesa's hold-in obligations, should they prove necessary at all, will be brief. In fact, the carrier transitions at some of the communities could occur before the end of Mesa's 90-day notice periods. In such situations, Mesa may suspend its services on less than 90 days' notice, *i.e.*, on the date that replacement service by other United Express carriers actually begins, provided that, before it suspends service at any of the communities, it contacts all passengers holding reservations for flights that will be suspended, informs them of the suspension and the availability of other service, and assists them in arranging alternative transportation. Mesa has advised us that it will do so.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service before we compensate it for providing essential air service. We last found SkyWest and Great Lakes fit by Orders 97-7-12, July 11, 1997, and 97-10-10, October 14, 1997. Since then, the Department has routinely monitored the carriers' continuing fitness, and no information has come to our attention that would lead us to question their ability to operate in a reliable manner. Based on our review of their most recent submissions, we find that SkyWest and Great Lakes continue to have available adequate financial and managerial resources to provide quality service at the communities at issue here, and that they continue to possess favorable compliance dispositions. The Federal Aviation Administration has advised us that the carriers are conducting their operations in accordance with 14 CFR Part 121, and knows of no reason why we should not find that SkyWest and Great Lakes remain fit.

This order is issued under authority delegated in 49 CFR 1.56(i).

ACCORDINGLY,

1. We prohibit Mesa Air Group, d/b/a United Express, from suspending service at Crescent City, California, at the end of its 90-day notice period, and require it to maintain service at the community, as set forth in Appendix D, for the 30-day period through June 24, 1998, or until a carrier capable of providing reliable essential air service actually begins service, which occurs first;⁹
2. We prohibit Mesa Air Group, d/b/a United Express, from suspending service at Merced, California, at the end of its 90-day notice period, and require it to maintain service at the community, as set forth in Appendix D, for the 30-day period through June 18, 1998, or until a carrier capable of providing reliable essential air service actually begins service, which occurs first;¹⁰
3. We prohibit Mesa Air Group, d/b/a United Express, from suspending service at Cortez, Colorado, Dodge City, Garden City, Great Bend and Hays, Kansas, and Liberal, Kansas/Guymon, Oklahoma, at the end of its 90-day notice period, and require it to maintain service at the community, as set forth in Appendix D, for the 30-day period through June 17, 1998, or until a carrier capable of providing reliable essential air service actually begins service, which occurs first;¹¹

⁸ SkyWest understands that, until it implements a third round trip at Crescent City, its subsidy will be proportionately modified.

⁹ In accordance with 49 U.S.C. 41734(c), we will extend Mesa's service obligation for successive 30-day periods as necessary until replacement service actually begins.

¹⁰ See fn. 9.

¹¹ See fn. 9.

4. We will rely on SkyWest Airlines, Inc., d/b/a United Express, to provide essential air service at Crescent City and Merced, California, as described in Appendix B, from the date that it institutes service through December 31, 1999, at Crescent City and April 30, 1999, at Merced;

5. We set the final rates of compensation for SkyWest Airlines, Inc., d/b/a United Express, for the provision of essential air service at Crescent City and Merced, California, as described in Appendix B, from the date that it institutes service through December 31, 1999, at Crescent City and through April 30, 1999, at Merced, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the ceiling per week set forth in Appendix B, and shall be determined by multiplying the subsidy-eligible arrivals and departures flown during the month by the following amounts:¹²

Crescent City	\$103.02
Merced	\$409.20

6. We will rely on Great Lakes Aviation, Ltd., d/b/a United Express, to provide essential air service at Cortez, Colorado, Dodge City, Garden City, Great Bend and Hays, Kansas, and Liberal, Kansas/Guymon, Oklahoma, as described in Appendix C, from the date that it institutes service through September 30, 1998, at Cortez and September 30, 1999, at Dodge City, Garden City, Great Bend, Hays and Liberal/Guymon;

7. We set the final rates of compensation for Great Lakes Aviation, Ltd., d/b/a United Express, for the provision of essential air service at Cortez, Colorado, Dodge City, Garden City, Great Bend and Hays, Kansas, and Liberal, Kansas/Guymon, Oklahoma, as described in Appendix C, from the date that it institutes service through September 30, 1998, at Cortez and September 30, 1999, at Dodge City, Garden City, Great Bend, Hays and Liberal/Guymon, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the ceiling per week set forth in Appendix C, and shall be determined by multiplying the subsidy-eligible arrivals and departures flown during the month by the following amounts:¹³

Cortez	\$158.22
Hays	\$838.72
Great Bend and Dodge City	\$454.68
Liberal/Guymon and Garden City	\$104.16

8. Where applicable, we will allow Mesa Air Group, d/b/a United Express, to suspend service on less than 90 days' notice at the communities named in ordering paragraphs 1, 2 and 3 above on the date that a carrier capable of providing reliable essential air service actually begins service;

9. We terminate the subsidy rates for Mesa Air Group, d/b/a United Express, at the communities named in ordering paragraphs 1, 2 and 3 above, as established by Orders 97-6-22, 97-6-29, 97-9-13 and 97-11-9, on the date that a carrier capable of providing reliable essential air service actually begins service.

10. We find that SkyWest Airlines, Inc., d/b/a United Express, and Great Lakes Aviation, Ltd., d/b/a United Express, continue to be fit, willing and able to operate as commuter air carriers and capable of providing reliable essential air service at Crescent City and Merced, California, Cortez, Colorado, Dodge City, Garden City, Great Bend and Hays, Kansas, and Liberal, Kansas/Guymon, Oklahoma;

11. We direct SkyWest Airlines, Inc., d/b/a United Express, and Great Lakes Aviation, Ltd., d/b/a United Express, to retain all books, records, and other source and summary documentation to support claims for payment, and to

¹² See Appendix B for the calculation of these rates, which assume the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of these rates may be required.

¹³ See Appendix C for the calculation of these rates, which assume the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of these rates may be required.

preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carriers may forfeit their compensation for any claim that is not supported under the terms of this order;

12. These dockets will remain open until further order of the Department; and

13. We will serve a copy of this order on the Mayors and airport managers of Crescent City and Merced, California, Cortez, Colorado, Dodge City, Garden City, Great Bend and Hays and Liberal, Kansas, and Guymon, Oklahoma; Mesa Air Group; SkyWest Airlines, Inc., d/b/a United Express; and Great Lakes Aviation, Ltd., d/b/a United Express.

By:

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the
World Wide Web at <http://dms.dot.gov>
The electronic version may not include all of the Appendixes.*

SKYWEST AIRLINES, INC., d/b/a UNITED EXPRESS
 ESSENTIAL AIR SERVICE AT
 CRESCENT CITY AND MERCED, CALIFORNIA

EFFECTIVE PERIOD

Crescent City	From the date on which the proposed service begins through December 31, 1999
Merced	From the date on which the proposed service begins through April 30, 1999

SERVICE

Crescent City	18 Crescent City-Eureka/Arcata-Sacramento round trips each week
Merced	18 Merced-San Francisco round trips each week

AIRCRAFT TYPE

Embraer Brasilia (30 seats)

TIMING OF FLIGHTS

Flights must be well-timed and well-spaced to ensure full compensation

**ANNUAL SUBSIDY RATES
 AT 98 PERCENT COMPLETION**

Crescent City	\$189,043
Merced	\$750,890

**SUBSIDY RATE PER
 ARRIVAL/DEPARTURE**

Crescent City	\$103.02 <u>1</u> /
Merced	\$409.20 <u>2</u> /

**COMPENSATION CEILING
 EACH WEEK**

Crescent City	\$ 3,708.72 <u>3</u> /
Merced	\$14,731.20 <u>4</u> /

FOOTNOTES APPEAR ON THE FOLLOWING PAGE

NOTE

The Department of Transportation and SkyWest Airlines, Inc., have concluded rate discussions with respect to the carrier's provision of essential air service at the terms and conditions described herein.

The Department recognizes that the carrier's proposed schedule times are subject to modification, but nonetheless expects the carrier to maintain well-timed schedules providing a service quality comparable to that provided by the proposed schedules. Overall service levels -- frequency and capacity -- must meet the minimums contained in the order.

The carrier understands that it may forfeit their compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plans outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with the order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be ensured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this agreement, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to this agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

FOOTNOTES

1/ Annual compensation of \$189,043 divided by the estimated annual completed departures of arrivals at a 98 percent completion factor: $36 \times 52 \text{ weeks} \times .98 = 1,835$.

2/ Annual compensation of \$750,890 divided by the estimated annual completed departures of arrivals at a 98 percent completion factor: $36 \times 52 \text{ weeks} \times .98 = 1,835$.

3/ Subsidy rate per arrival departure of \$103.02 multiplied by 36 subsidy-eligible arrivals and departures each week.

4/ Subsidy rate per arrival departure of \$409.20 multiplied by 36 subsidy-eligible arrivals and departures each week.

GREAT LAKES AVIATION, LTD., d/b/a UNITED EXPRESS
 ESSENTIAL AIR SERVICE AT CORTEZ, COLORADO,
 DODGE CITY, GARDEN CITY, GREAT BEND AND HAYS, KANSAS,
 AND LIBERAL, KANSAS/GUYMON, OKLAHOMA

EFFECTIVE PERIOD

Cortez	From the date on which the proposed service begins through September 30, 1998
Dodge City, Garden City, Great Bend, Hays and Liberal/Guymon	From the date on which the proposed service begins through September 30, 1999

SERVICE

Cortez	24 Cortez-Denver round trips each week
Dodge City, Garden City, Great Bend, Hays and Liberal/Guymon	12 Hays-Denver, 12 Great Bend-Dodge City-Denver and 18 Liberal/Guymon-Garden City-Denver round trips each week

AIRCRAFT TYPE

Beech 1900 (19 seats)

TIMING OF FLIGHTS

Flights must be well-timed and well-spaced to ensure full compensation

ANNUAL SUBSIDY RATES
AT 98 PERCENT COMPLETION

Cortez	\$ 387,001
Hays	\$1,025,756
Dodge City and Great Bend	\$1,112,143
Garden City and Liberal/Guymon	\$ 382,153

SUBSIDY RATE PER
ARRIVAL/DEPARTURE

Cortez	\$158.22 <u>1/</u>
Hays	\$838.72 <u>2/</u>
Dodge City and Great Bend	\$454.68 <u>3/</u>
Garden City and Liberal/Guymon	\$104.16 <u>4/</u>

COMPENSATION CEILING
EACH WEEK

Cortez	\$ 7,594.56 <u>5/</u>
Hays	\$20,129.28 <u>6/</u>
Dodge City and Great Bend	\$21,824.64 <u>7/</u>
Garden City and Liberal/Guymon	\$ 7,499.52 <u>8/</u>

FOOTNOTES

1/ Annual compensation of \$189,043 divided by the estimated annual completed departures of arrivals at a 98 percent completion factor: $48 \times 52 \text{ weeks} \times .98 = 2,446$.

2/ Annual compensation of \$1,025,756 divided by the estimated annual completed departures of arrivals at a 98 percent completion factor: $24 \times 52 \text{ weeks} \times .98 = 1,223$.

3/ Annual compensation of \$1,112,143 divided by the estimated annual completed departures of arrivals at a 98 percent completion factor: $48 \times 52 \text{ weeks} \times .98 = 2,446$.

4/ Annual compensation of \$382,153 divided by the estimated annual completed departures of arrivals at a 98 percent completion factor: $72 \times 52 \text{ weeks} \times .98 = 3,669$.

5/ Subsidy rate per arrival departure of \$158.22 multiplied by 48 subsidy-eligible arrivals and departures each week.

6/ Subsidy rate per arrival departure of \$838.72 multiplied by 24 subsidy-eligible arrivals and departures each week.

7/ Subsidy rate per arrival departure of \$454.68 multiplied by 48 subsidy-eligible arrivals and departures each week.

8/ Subsidy rate per arrival departure of \$104.16 multiplied by 72 subsidy-eligible arrivals and departures each week.

NOTE

The Department of Transportation and Great Lakes Aviation, Ltd., have concluded rate discussions with respect to the carrier's provision of essential air service at the terms and conditions described herein.

The Department recognizes that the carrier's proposed schedule times are subject to modification, but nonetheless expects the carrier to maintain well-timed schedules providing a service quality comparable to that provided by the proposed schedules. Overall service levels -- frequency and capacity -- must meet the minimums contained in the order.

The carrier understands that it may forfeit their compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plans outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with the order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be ensured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this agreement, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to this agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

APPENDIX D

MESA AIR GROUP
ESSENTIAL AIR SERVICE TO BE MAINTAINED AT
CRESCENT CITY AND MERCED, CALIFORNIA, CORTEZ, COLORADO,
DODGE CITY, GARDEN CITY, GREAT BEND AND HAYS, KANSAS,
AND LIBERAL, KANSAS/GUYMON, OKLAHOMA

EFFECTIVE PERIOD

Crescent City	Beginning May 25, 1998, until replacement service actually begins
Merced	Beginning May 19, 1998, until replacement service actually begins
Cortez, Dodge City, Garden City, Great Bend, Hays and Liberal/Guymon	Beginning May 18, 1998, until replacement service actually begins

SERVICE

Crescent City	At least 18 Crescent City-Eureka/Arcata-Sacramento round trips each week
Merced	At least 24 Merced-San Francisco round trips each week
Cortez	At least 24 Cortez-Denver round trips each week
Dodge City, Garden City, Great Bend, Hays and Liberal/Guymon	At least 12 Hays-Denver, 12 Great Bend-Dodge City-Denver and 18 Liberal/Guymon-Garden City-Denver round trips each week

AIRCRAFT TYPE

Crescent City and Merced	Jetstream 31 (19 seats)
Cortez, Dodge City, Garden City, Great Bend, Hays and Liberal/Guymon	Beech 1900 (19 seats)

TIMING OF FLIGHTS

Flights must be well-timed and well-spaced to ensure full compensation
